

Message Text

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ACTION TRSE-00

INFO OCT-01 NEA-10 ISO-00 ABF-01 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 7736

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E.O. 11652: N/A

TAGS: EGEN EG

SUBJECT: TRANSFER OF US-OWNED LOCAL CURRENCY ACCOUNTS

REF: A. STATE 234009 B. CAIRO 8928

1. AS RESULT OF CONVERSATION BETWEEN ECONCOUN AND CB GOV ZENDOU, EMBASSY HAS DETERMINED THAT GOE HAS INDEED TAKEN STEPS TO LIMIT UTILITY OF US-OWNED LOCAL CURRENCY DEPOSITS TO NEW JOINT-VENTURE BANKS, AS REPORTED REF B. MOVE WAS MADE ABOUT 60 DAYS AGO, BUT EFFORTS COSMETICALLY TO CONCEAL ACTION MADE IT DIFFICULT TO OBTAIN HARD EVIDENCE REQUESTED REFTEL A. WE HAVE BEEN UNABLE OBTAIN COPY OF CENTRAL BANK INSTRUCTIONS, BUT THEIR EXISTENCE IS NOT IN DOUBT.

2. CENTRAL BANK IS EVIDENTLY INTERESTED IN MAKING IT APPEAR THAT NEW REGULATIONS ARE NOT AIMED AT JOINT-VENTURE BANKS. THIS IS TRUE IN ONE SENSE, FOR, WHILE RULES OBVIOUSLY RESULTED FROM CREATION NEW BANKS, THEY HAVE BEEN APPLIED TO ALL BANKS IN EGYPT, SO THERE IS NO DISCRIMINATION AGAINST AMERICAN JOINT VENTURES. THUS, QUESTION OF WIND-FALL PROFITS IS DEAD ISSUE NOW, ALTHOUGH GOE BANKS DID EARN THEM IN PAST THROUGH USE OF AMERICAN-OWNED DEPOSITS AS SOURCES FOR LOANS.

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3. CONCERNS OVER INFUSION OF FUNDS INTO ALREADY INFLATED ECONOMY, MENTIONED IN REF A AND QUESTIONED REF B, ARE REAL, EVEN IF IT DOES NOT REFLECT ACCURATE PERCEPTION OF SITUATION. NEW JOINT VENTURES ARE EGYPTIAN BANKS, 51 PERCENT CONTROLLED BY CENTRAL BANK/GOE, AND ARE THEREFORE ABLE TO CARRY OUT ONLY THOSE ACTIVITIES DESIRED BY EGYPT. THEY THEREFORE POSED NO REAL PROBLEM, AND CERTAINLY NO THREAT, TO GOE'S EFFORTS TO CONTROL ECONOMY. WE AGREE FULLY THAT NEW BANKS WOULD TEND TO BE MORE INTERESTED IN INVESTMENT RATHER THAN CONSUMPTION FINANCING IN ANY EVENT, AND IF COGNIZANCE IS TAKEN OF FACT THAT THERE IS CERTAINLY NO SHORTAGE OF POUNDS AVAILABLE FOR EITHER PURPOSE, THEN CONCERN IS EVEN HARDER TO UNDERSTAND. NEVERTHELESS, THERE WAS OBVIOUSLY STRONG FEAR THAT JOINT VENTURES WOULD RUN WILD, AND SO ACTION WAS TAKEN TO STERILIZE PL-480 GENERATED ACCOUNTS.

4. WE ASSUME THAT AMERICAN PARTNERS WILL STILL BE INTERESTED IN OBTAINING DEPOSITS. RESERVE REQUIREMENT, EQUAL TO 20 PERCENT OF US-OWNED DEPOSITS, WILL NOT DRAW INTEREST AT CENTRAL BANK, BUT REMAINING 80 PERCENT WILL EARN 1.25 PERCENT GROSS (OR 1 PERCENT NET), PROVIDING A 0.3 PERCENT PROFITS OVERALL SINCE ONLY 0.5 PERCENT IS REQUIRED TO BE PAID TO US ON TOTAL SUM HELD. THIS SMALL RETURN, PLUS INCENTIVE OF HAVING DEPOSIT APPEAR ON BALANCE SHEET, WILL PROBABLY BE SUFFICIENT TO MAINTAIN DESIRE TO HOLD US DEPOSITS.

5. WITH RESPECT TO SPECIFIC REGULATIONS COVERING 0.5 PERCENT INTEREST RATE CEILING ON US-OWNED CURRENCY, IT APPEARS THAT RATE WAS SET BY CORRESPONDENCE BETWEEN EMBASSY AND GOE FOLLOWING NATIONALIZATION OF ALL FOREIGN BANKS IN 1961, AS REPORTED REF B. IT HAS SINCE BECOME ALMOST ARTICLE OF FAITH. LIMITATIONS ON USG WITHDRAWALS OF FUNDS ARE MINIMAL, INVOLVING MOSTLY BUREAUCRATIC DELAY (WHICH CAN SOMETIMES BE EXTENSIVE), AND US USES STIPULATED UNDER PL 480 AGREEMENT OF 1960'S ARE FULLY UNDERSTOOD BY BANKS (IF NOT ALWAYS BY OTHER OFFICIALS IN VARIOUS MINISTRIES).

6. AS OF NOW, FOUR US BANKS ARE ACTIVE IN VARIOUS STAGES LOCAL CURRENCY JOINT VENTURE PROJECTS INsofar AS WE ARE AWARE.

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A. CHASE MANHATTAN, 49 PERCENT WITH NATIONAL BANK OF EGYPT. CAPITAL LE 10 MILLION (AT OFFICIAL RATE OF EXCHANGE LE 1 EQUALS \$2.56), OF WHICH 25 PERCENT IS PAID IN. BANK IS IN OPERATION SINCE SEPT 15.

B. AMERICAN EXPRESS, 49 PERCENT WITH BANK OF ALEXANDRIA. CAPITAL \$30 MILLION OF WHICH \$10 MILLION TO BE PAID IN BY TIME OF OPENING. AMEX HAS A FUNCTIONING FOREIGN CURRENCY BRANCH AND

IS LOOKING FOR A LOCATION FOR LOCAL CURRENCY JOINT-VENTURE.
APPROPRIATE SPACE IS HARD TO FIND, AND WE WOULD ESTIMATE
OPENING IN NOT LESS THAN SIX MONTHS.

C. BANK OF AMERICA, 49 PERCENT WITH CAIRO BANK. CAPITAL NOT
YET PUBLICLY ANNOUNCED IN OFFICIAL GAZETTE. RELATIVELY INACTIVE,
OPENING IN NOT LESS THAN SIX MONTHS.

D. FIRST NATIONAL OF CHICAGO, 20 PERCENT WITH BANK MISR (19
PERCENT BANCO DI ROMA, 10 PERCENT, UBAF). PRESS HAS ANNOUNCED
CAPITAL AT \$2.5 MILLION. RELATIVELY INACTIVE, OPENING IN NOT LESS
THAN SIX MONTHS.
MAESTRONE

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